

December 15, 2000

The Honorable Tony Knowles, Governor  
Members of the Alaska State Legislature  
Public Employees' Retirement Board  
Alaska State Pension Investment Board  
Employers and Members of the System

We are pleased to present the Comprehensive Annual Financial Report (CAFR) of the Public Employees' Retirement System (PERS) (System) for the fiscal year ended June 30, 2000. This report is intended to provide comprehensive information on the financial operations of the System for the year. Responsibility for the accuracy of the data, and the completeness and fairness of the presentation rests with the management of the System.

This CAFR was prepared to conform with the principles of governmental accounting and reporting set forth by the Governmental Accounting Standards Board. Transactions of the System are reported on the accrual basis of accounting. Sufficient internal accounting controls exist to provide reasonable assurance regarding the safekeeping of assets and fair presentation of the financial statements and supporting schedules.

The 2000 CAFR is divided into five sections:

- an **Introductory** Section, which contains this letter of transmittal, the administrative organization of the System, and a list of the members serving on the Public Employees' Retirement Board;
- a **Financial** Section, which contains the Independent Auditors' Report, Combining Financial Statements, Notes to Combining Financial Statements, Required Supplementary Information, and Notes to Required Supplementary Information;
- an **Investment** Section, which contains a message from the Chair of the Alaska State Pension Investment Board (ASPIB), a list of members serving on the ASPIB, a report on investment activity, investment results, and various investment schedules;
- an **Actuarial** Section, which contains the Actuarial Certification letter and the results of the most current (June 30, 1999) annual actuarial valuation; and
- a **Statistical** Section, which includes graphs and tables of significant data.

The Alaska PERS was established in 1961 to provide pension and postemployment healthcare benefits for eligible state and local government employees. Normal service, survivor, and disability benefits are available to all members who attain the age and service requirements of the System.

	PERS		
	FY00	FY99	FY98
Net Assets (millions)	\$8,756.6	8,105.4	7,438.4
Participating Employers	151	153	148

## Reporting Entity

The System is considered a component unit of the State of Alaska for financial reporting purposes. Because of the closeness of the System's relationship to the State, it is included in the State of Alaska CAFR as a blended component unit.

The Commissioner of the Department of Administration, appointed by the Governor, is responsible for administering the System. In order to meet the statutory requirements of administering the System, the Commissioner appoints the Director of the Division of Retirement and Benefits. The Director is responsible for the daily operations of the System.

The Public Employees' Retirement Board prescribes policies and regulations, hears appeals, and approves employers' contribution rates prepared by the System's independent actuary.

The Alaska State Pension Investment Board (ASPIB) has statutory oversight of the System's investments and the authority to invest the System's monies. Actual investing is performed by external investment firms and investment officers of the Department of Revenue, Treasury Division listed in the Investment Section on pages 40-41. The Treasury Division is responsible for carrying out investment policies established by ASPIB.

## Major Initiatives

The System continues to make progress on completing several on-going projects. Most of these efforts focused on improvements in technology, improving methods for members to obtain information about the System and their benefits, and continued compliance with accounting requirements of the Governmental Accounting Standards Board (GASB) and the Financial Accounting Standards Board (FASB) as applicable in the circumstances.

During FY 2000, the System granted a discretionary cost-of-living increase, along with the statutorily required automatic cost-of-living increase.

## Legislation

During the FY 2000 legislative session, there were four laws that affected the PERS:

- Senate Bill 85 — An act relating to credited service in the public employees' retirement system for temporary employment; and creating a public service benefit in the public employees' retirement system.
- House Bill 159 — An act permitting certain employees in the correctional facilities or employed in the Department of Corrections to convert their credited service under the public employees' retirement system to credited service as a peace officer.
- House Bill 230 — An act permitting certain dispatchers in police and fire departments or for the state troopers to convert their credited service under the public employees' retirement system to credited service as peace officers; and providing an effective date.
- House Bill 335 — An Act relating to information contained in retirement system records; relating to retirement boards; relating to procedures and hearings under state retirement systems; relating to benefits for reemployed retired members of retirement systems; relating to eligibility for normal retirement for members of the teachers' retirement system who have Alaska BIA credited service; relating to disability benefits for members of state retirement systems; relating to deduction of premiums from retirement benefits; relating to protection of, and assignment and transfer of, amounts held in retirement systems; relating to retirement benefits for certain employees earning

high salaries; relating to qualified domestic relations orders in state retirement systems; relating to the definition of 'retirement fund' in the teachers' retirement system; relating to membership of state employees in the teachers' retirement system; relating to refund of contributions made to the judicial retirement system and repayment of refunded contributions in that system; relating to self-insurance and excess loss insurance for persons receiving benefits from a state retirement system; relating to participation of elected officials in the public employees' retirement system; relating to the level income option benefit under the public employees' retirement system; relating to participation of employees of political subdivisions and public organizations in the public employees' retirement system; relating to crimes for defrauding a state retirement system; relating to the definition of 'pension fund' in the public employees' retirement system; and relating to calculation of years of service and of benefits under the public employees' retirement system for noncertificated employees of certain educational employers.

### Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Public Employees' Retirement System for its comprehensive annual financial report for the fiscal year ended June 30, 1999. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

### Additions to Plan Net Assets

The revenues required to finance retirement benefits are accumulated through a combination of employer and employee contributions and investment income.

	Revenues			
	Millions		Inc/(Dec)	
	FY00	FY99	Amt	%
Employee Contributions	\$ 92.7	90.6	2.1	2.3%
Employer Contributions	107.6	110.0	(2.4)	(2.2)%
Net Investment Income	<u>790.3</u>	<u>764.6</u>	<u>25.7</u>	3.4%
<b>Total</b>	<b><u>\$ 990.6</u></b>	<b><u>965.2</u></b>	<b><u>25.4</u></b>	<b>2.6%</b>

The decrease in employer contributions was primarily due to a decrease in the employer contribution rate for the State of Alaska, the biggest PERS employer. Even though the rate of return on investments decreased from 10.67% to 10.15%, there was an increase in investment income as additions to the fund exceeded deductions for the year, which meant that the System had more to invest over the course of the year.

## Deductions From Plan Net Assets

The primary expense of the System is the payment of pension benefits, the principal reason the System exists. These benefit payments, together with postemployment healthcare premiums, lump sum refunds made to former members, and the cost of administering the System comprise the costs of operation.

	Millions		Expenses	
	FY00	FY99	Amt	Inc/(Dec)
Pension Benefits	\$ 239.4	215.2	24.2	11.3%
Healthcare Benefits	83.8	64.5	19.3	29.9%
Refunds	12.0	14.4	(2.4)	(16.7)%
Administrative Expenses	<u>4.3</u>	<u>4.1</u>	<u>0.2</u>	4.9%
<b>Total</b>	<b><u>\$ 339.5</u></b>	<b><u>298.2</u></b>	<b><u>41.3</u></b>	<b>13.9%</b>

The majority of the increase in pension benefits was the result of a continuing increase in the number of retirees. Also, the System granted a discretionary cost-of-living (post retirement pension adjustment (PRPA)) increase at the beginning of the fiscal year. The increase in health care benefits is due to the increase in retirees and rising costs of providing such benefits.

## Investments

The investment of pension funds is a long-term undertaking. On an annual basis, ASPIB reviews and adopts an asset allocation strategy to ensure the asset mix will remain at an optimal risk/reward level given the System's constraints and objectives. During FY 2000, ASPIB adopted an asset allocation that includes 41% in Domestic Equities, 17% in International Equities, 30% in Domestic Fixed Income, 5% in International Fixed Income, and 7% in Real Estate.

For FY 2000, PERS investments generated a 10.07% rate of return. The PERS annualized rate of return was 11.78% over the last three years and 13.43% over the last five years.

## Funding

The overall objective of a pension fund is to accumulate sufficient funds to meet all expected future obligations to participants. The contribution requirements are determined as a percentage of payroll, and reflect the cost of benefits accruing in FY 2000 and a rolling amortization of the funding target surplus or the unfunded target accrued liability. The amortization period is set by the Board. Contribution levels are recommended by the Actuary and adopted by the Board each year. Over time, the contribution rate is expected to remain constant as a percentage of payroll. The ratio of assets to liabilities decreased slightly from 105.9% to 105.5% during the year, primarily the net effect of continued favorable investment experience and a change in the health trend assumption. Over the years, progress has been made toward achieving the funding objectives of the System.

There were no significant changes in the actuarial assumptions or actuarial methods used in the determination of System liabilities this year. The assumptions and methods, when applied in combination, fairly represent past and anticipated future experience of the System.

The FY 2001 consolidated rate decreased from 9.89% to 8.67%, producing a total average rate for all employers in the System of 7.40%.

Valuation Year	Millions	
	1999	1998
Valuation Assets	\$7,016.3	6,571.6
Accrued Liabilities	6,648.7	6,204.0
Funding ratio	105.5%	105.9%

### Professional Services

Professional consultants are retained to perform professional services that are essential to the effective and efficient operation of the System. Opinions of the independent certified public accountant and the consulting actuary are included in this report. A list of consultants is provided in the Introductory Section with the exception of investment professional consultants, who are listed in the Investment Section of this report.

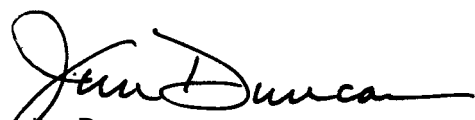
### Acknowledgments

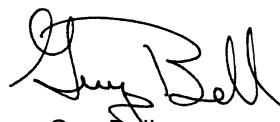
The preparation of this report is made possible by the dedicated service of the staff of the System. It is intended to provide complete and reliable information as a basis for making management decisions, as a means of determining compliance with legal provisions, and as a means of determining responsible stewardship of the funds of the system.

The report is being mailed to all employer members of the System. They form the link between the System and the membership. Their cooperation contributes significantly to the success of the System. We hope the employers and their employees find this report informative.

We would like to take this opportunity to express our gratitude to the Public Employees' Retirement Board, the Alaska State Pension Investment Board, the staff, the advisors, and to the many people who have worked so diligently to assure the successful operation of the System.


Respectfully submitted,

  
Jim Duncan  
Commissioner

  
Guy Bell  
Director

  
Janet L. Parker  
Deputy Director

  
Anselm Staack, CPA, JD  
Chief Financial Officer

  
Kevin T. Worley, CPA  
Defined Benefits Accounting Supervisor

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

## Alaska Public Employees' Retirement System

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 1999

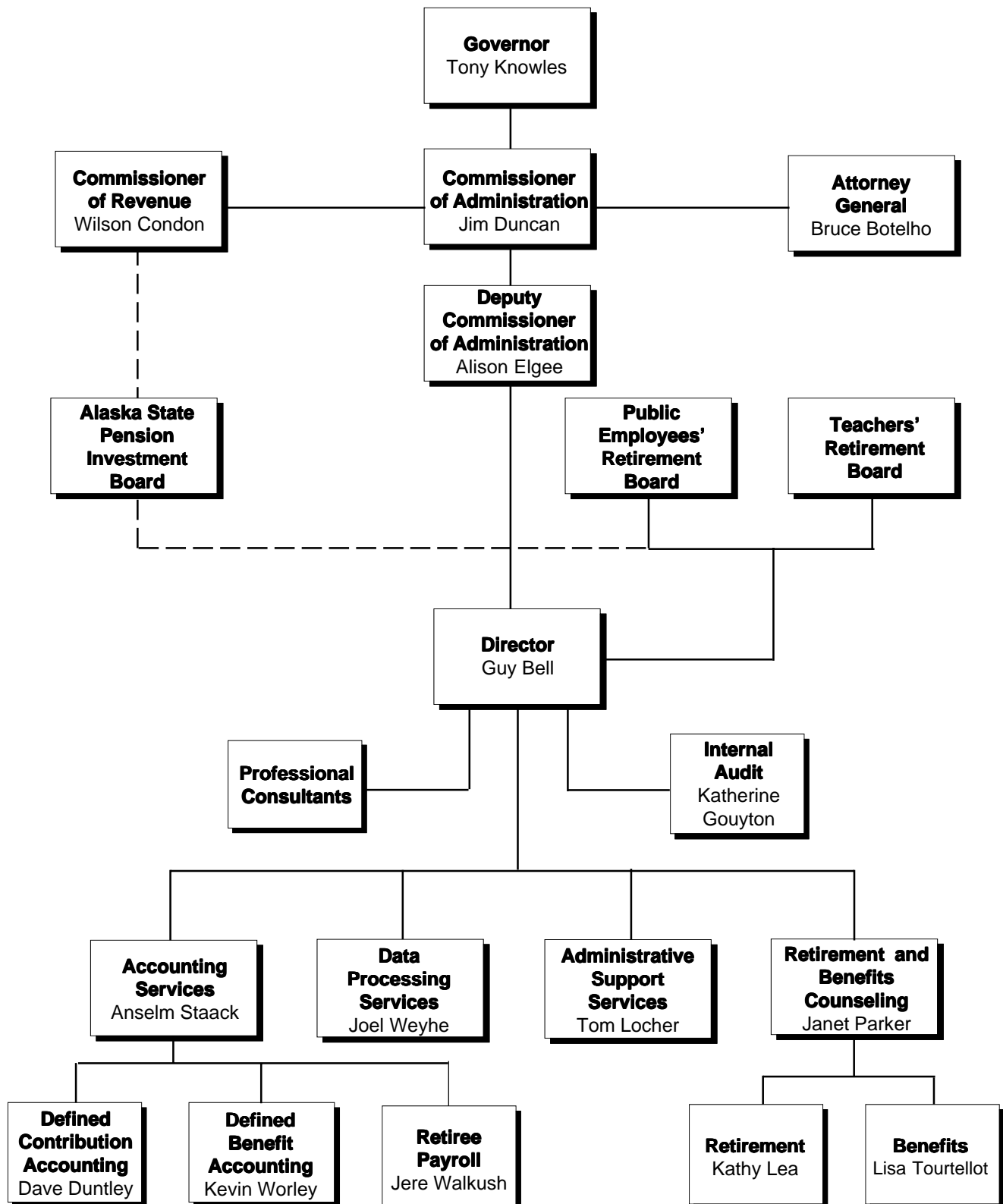
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



*Anne Spray Kinney*  
President

*Jeffrey L. Esler*  
Executive Director

## ORGANIZATION CHART



## Section Responsibilities

The **Retirement Section** is responsible for providing comprehensive retirement counseling to the participating members and employers in the plan. The section appoints members to retirement benefits and maintains benefit payment information.

The **Benefits Section** is responsible for the administration of group health, disability, and life insurance. This section provides benefits counseling and plan change information to the membership.

The **Defined Benefit Accounting Section** is responsible for maintaining the employee and employer records and accounts in each of the defined benefit plans administered by the Division of Retirement and Benefits, producing financial statements and reports, and assuring compliance with the Internal Revenue Service requirements for defined benefit plans.

The **Defined Contribution Accounting Section** is responsible for accounting, plan operations, and financial activities related to the defined contribution plan systems administered by the Division.

The **Data Processing Services Section** supports the information systems the Systems use. Responsibilities include planning, development, data base design, programming, and operational support of the data processing systems, including the Local Area Network.

The **Administrative Support Services Section** is responsible for budget preparation, fiscal management of appropriations, procurement of professional services, supplies, and equipment. The section manages the systems' record center containing the member's physical records and performs other administrative functions such as legislative tracking and personnel management.

The **Retiree Payroll Section** is responsible for issuing monthly and on demand retirement benefit payments to eligible retirees or their beneficiaries. The section maintains accurate records for reporting benefit recipient tax statements and reporting and paying withheld income taxes, garnishments, and IRS levies.

PROFESSIONAL CONSULTANTS	
<p><b>Consulting Actuary</b> William M. Mercer, Incorporated <i>Seattle, Washington</i></p>	<p><b>Legal Counsel</b> John Gaguine Kathleen Strasbaugh Assistant Attorney General <i>Juneau, Alaska</i></p>
<p><b>Independent Auditors</b> KPMG LLP <i>Anchorage, Alaska</i></p>	<p><b>Legal Counsel - Retirement Boards</b> Wohlforth, Vassar, Johnson &amp; Brecht <i>Anchorage, Alaska</i></p>
<p><b>Benefits Consultant</b> Deloitte &amp; Touche, LLP <i>Minneapolis, Minnesota</i></p>	<p><b>Consulting Physicians</b> Kim Smith, M.D. William Cole, M.D. <i>Juneau, Alaska</i></p>
<p><b>Third Party Health Claim Administrator</b> Aetna Life Insurance Company <i>Walnut Creek, California</i></p>	

A list of external money managers and consultants for the System can be found on pages 40-41, and the Schedule of Investment Management Fees on pages 49-50.



## PUBLIC EMPLOYEES' RETIREMENT BOARD



**James "Pat" Wellington, Chair**

Term Expires: April 5, 2002

Pat Wellington was born in Ketchikan, Alaska and graduated from Douglas High School. He served two years in the U.S. Army and started his law enforcement career with the Seward Police Department in late 1955. He served as Deputy U.S. Marshal, Alaska State Troopers; Chief of Police of Juneau; Deputy Commissioner and Commissioner of the Department of Public Safety; and retired in 1977 as Director of the Alaska State Troopers. Mr. Wellington is also a trustee of the Alaska State Pension Investment Board. Mr. Wellington is Chair of the Public Employees' Retirement Board.



**Peter Hallgren, Vice Chair**

Term Expires: June 20, 2000

Peter Hallgren has been an Alaska resident for 28 years and recently moved from Sitka to Delta Junction.

Peter served for over a decade as Municipal Attorney for the City & Borough of Sitka before being elected to the Sitka Assembly in 1987. Mr. Hallgren is a former Mayor of the City & Borough of Sitka. Since 1994 he has served on the Alaska Personnel Board, the Public Employees' Retirement Board, and chairman of the Republican Party of Alaska from 1994-1998. He is currently employed by the City of Delta Junction in a management capacity.



**Charles Borg**

Term Expires: June 20, 2004

Charles Borg resides in Anchorage. Raised in Washington, he graduated from Eastern Washington University in 1960 and began his career in the Army Infantry the same year. His military assignments included two tours of duty in Vietnam, infantry troop assignments in Europe, Alaska Director of Selective Service, and duty on the army staff at The Pentagon.

After his retirement from military active duty, he joined Alaska State government serving as Director of Veterans Affairs, and Deputy Commissioner of the Department of Military and Veterans Affairs. From 1991 to 1999, Mr. Borg served as Director of Managed Health Care at Elmendorf Hospital and federal health care coordinator for Veterans Affairs.



**Frank Narush**

Term Expires: April 24, 2006

Frank Narusch has been an Alaskan resident since 1952. Raised in the coal mining camp of Suntrana on the Healy River, he boarded away to attend high school at Monroe High School in Fairbanks and Copper Valley School in Glennallen. While attending Seattle University, he worked summers commercial fishing in Cordova, coal mining in Suntrana, and surveying and inspecting projects around Fairbanks and Valdez for the Department of Highways (now DOT&PF). After receiving a degree in civil engineering in 1966, he began his professional career with the Department of Highways. During his 31 years of State employment, he held positions as Construction Project Manager, Regional Materials Engineer, Contract Claims Engineer, and Professional Services Chief. While with the State, he was active with the Alaska Public Employees Association as an employee representative, local officer, and state director.

Upon retiring from DOT&PF in 1997, Frank organized the Retired Public Employees of Alaska and currently serves as Membership Chairman and Newsletter Editor. He enjoys weekly breakfast get-togethers with retired friends as well as summer travel, camping, and exploring back roads around the State.



**Don Hoover**

Term Expires: June 20, 2002

Don Hoover resides in Fairbanks. He was born and raised in Washington, and graduated from Gonzaga University in 1952. He served in the US Navy in 1944-1946 in the Pacific Area prior to college. He moved to Alaska in 1956 and began a 22 year career in banking in Fairbanks and Nome. He also is a graduate of the Pacific Coast Banking School at the University of Washington in 1963. During his ten years in Nome, he served two terms as Mayor of Nome.

In 1978 he joined the State Department of Commerce until retirement in July 1985. He was appointed to the Older Alaska Commission on Aging (later the Alaska Commission on Aging) in 1994 and was a delegate to the White House Conference on Aging in 1995. He remained on the Commission on Aging until June 1, 2000. While on the Commission, he was also on the Pioneer Home Advisory Board for 6 years.